

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 1, 2018/2019

### **BAC 3684 – SECURITIES INVESTMENT AND PORTFOLIO MANAGEMENT** ( All sections / Groups )

15 OCTOBER 2018  
9.00 a.m – 12.00 p.m  
( 3 Hours )

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#### INSTRUCTIONS TO STUDENTS

1. This question paper consists of 3 pages with 4 questions only.
2. Attempt ALL FOUR questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answer in the Answer Booklet provided.

**Question 1 (25 marks)**

- (a) DYXY Berhad is a manufacturer of boat parts and has been in business for 5 years. Recently, its board of directors decided to start paying a dividend to help boost the attractiveness of its stock. The dividend will be RM0.50 per share next year. After that dividends will be increased by 4 percent per year. The company has a beta of 1.6. The rate of return on Kuala Lumpur Composite Index is 8%, Emas Index is 10% and the T-bill rate is 3%. Should you purchase shares in this firm at the current market price of RM6.98 per share?

(8 marks)

- (b) Referring to question (a), what will be the new intrinsic value if the dividends growth stabilized at 2% a year indefinitely after 4 years?

(11 marks)

- (c) Why is the stock market a leading indicator of the economy? Use the constant-growth dividend discount model in your explanation.

(6 marks)

**Question 2 (25 marks)**

- (a) A fund manager gives you the following data and asks you to analyse it using Moving Average. He also asks for your recommendation on whether to keep or sell the stock. Calculate the 10-days Moving Average for days 11 through 20 and advise the fund manager based on your result.

Day	Closing Price (RM)	Day	Closing Price (RM)
1	25.00	11	30.00
2	27.00	12	30.00
3	29.00	13	31.00
4	29.00	14	31.50
5	30.00	15	31.00
6	29.00	16	32.00
7	27.00	17	29.00
8	29.00	18	29.00
9	27.00	19	28.00
10	28.00	20	27.00

(11 marks)

Continued...

- (b) Listed below are the end-of-year prices and annual dividends for EXXA Corp.

Year	End of year price (RM)	Annual dividends
2013	65	1.20
2014	72	1.50
2015	67	1.50
2016	70	1.60
2017	72.50	1.60

Based on the above information:

- (i) Calculate the total returns in percentage for each year from 2014-2017.  
(4 marks)
- (ii) Calculate the average returns using the arithmetic mean over the holding period 2013-2017.  
(1 mark)
- (iii) What is the standard deviation of this stock?  
(9 marks)

**Question 3 (25 marks)**

- (a) As an analyst in BB Investment Company, you have derived the following information about 2 securities from past data:

Stock	Expected returns (%)	Standard deviation (%)	Correlation
X	10	12	XY = -0.6
Y	18	14	

Based on the above information;

- (i) Calculate the expected return for a portfolio consisting both stocks if equal amounts are placed in each security.  
(3 marks)
- (ii) Calculate the standard deviation for this portfolio, assuming equal weights are invested in each stock.  
(5 marks)
- (iii) What can be concluded from your answers in (ii) with regards to portfolio risks?  
(2 marks)

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- (b) Explain how the industry life cycle might be useful to an investor doing industry analysis. (15 marks)

**Question 4 (25 marks)**

- (a) Why would an investor want to know the beta coefficient for a particular company? How could this information be used? (8 marks)
- (b) In May 2018, Danny decided to buy a European put option contract on 2 lots of Proton shares which expires on 30 September 2018. The exercise price is RM 7 and the option premium is RM 0.20 per share.
- (i) Calculate the net payoff to Danny; if at the time of expiration, the market price of Proton shares is in the range between RM 4 and RM 10. Ignore short-term interest rates and sales commissions. (7 marks)
- (ii) Calculate the breakeven price for the put option. (2 marks)
- (c) Describe the differences between trading in stocks and trading in futures contracts. (8 marks)

**End of Page**

